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9 Possession, Scoobeez, Scoobeez Global, Inc., and
10 Scoobur, LLC

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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re
SCOOBEEZ, *et al.*¹

Debtors and Debtors in
Possession.

Affects:

All Debtors

Scoobeez, ONLY

Scoobeez Global, Inc., ONLY

Scoober LLC, ONLY

Case Nos.: 2:19-bk-14989; 2:19-bk-14991;
2:19-bk-14997

Chapter 11

**DEBTORS' EMERGENCY MOTION
FOR ORDER AUTHORIZING (1) THE
PAYMENT OF PREPETITION WAGES,
(2) THE CONTINUATION OF
EMPLOYEE PROGRAMS
POSTPETITION, (3) THE
WITHHOLDING AND PAYMENT OF
PAYROLL RELATED TAXES, AND
(4) THE PAYMENT OF PREPETITION
CLAIMS RELATING TO EMPLOYEE
PROGRAMS; DECLARATION OF
SHAHAN OHANESSIAN IN SUPPORT
THEREOF**

Hearing:

Date: May 1, 2019
Time: 3:00 p.m.
Place: Courtroom 1375
U.S. Bankruptcy Court
255 East Temple Street
Los Angeles, CA 90012

¹ The Debtors and the last four digits of their respective federal taxpayer identification numbers are as follows: Scoobeez (6339); Scoobeez Global, Inc. (9779); and Scoobur, LLC (0343). The Debtors' address is 3463 Foothill Boulevard, Glendale, California 91214.

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1 **TO THE HONORABLE JULIA W. BRAND, UNITED STATES BANKRUPTCY JUDGE,**
2 **THE OFFICE OF THE UNITED STATES TRUSTEE, SECURED CREDITORS, 20**
3 **LARGEST UNSECURED CREDITORS, AND ALL INTERESTED PARTIES AND/OR**
4 **THEIR COUNSEL OF RECORD:**

5 **I. BASIS FOR EMERGENCY RELIEF**

6 The Debtors hereby move for authority to pay certain prepetition obligations identified in
7 further detail below (collectively, the “Prepetition Obligations”) on an emergency basis pursuant
8 to Rule 9075-1 of the Local Rules of Bankruptcy Procedure of the United States Bankruptcy
9 Court for the Central District of California (the “Local Rules”).

10 The Debtors provide on-demand logistics and delivery services in California, Nevada,
11 Illinois, New York, and Texas. They offer door-to-door delivery service that facilitates same day
12 deliveries for enterprise clients. To facilitate the distribution of products and goods, the Debtors
13 rely on a large group of delivery drivers and dispatchers. Payroll is paid on a semi-monthly basis
14 and, given the timing of the commencement of the above captioned bankruptcy cases
15 (collectively, the “Bankruptcy Cases”), certain of the Debtors’ employees (collectively, the
16 “Employees”) are currently owed wages and other compensation earned prior to the Petition Date
17 (defined *infra*). To meet their obligations in a timely manner, the Debtors’ payroll company must
18 debit the funds necessary to pay the Prepetition Obligations on or before May 1, 2019. If the
19 funds cannot be timely debited, the Employees will not receive their wages as scheduled and may
20 lose their benefits. The Debtors believe that the Employees may seek alternate employment if
21 they do not timely receive their wages and/or any and all benefits to which they are entitled, or if
22 the Employees perceive the inability to pay wages as an indication that the Debtors are unable to
23 maintain operations in the course of the Bankruptcy Cases and, thus, provide long-term job
24 security. As the loss of one or more Employees could cause immediate and irreparable harm to
25 the Debtors, the estates, and the Debtors’ ability to reorganize, the need for the requested relief is
26 immediate.

27 ///

1 **II. STATEMENT OF FACTS**

2 **A. Jurisdiction and Venue**

3 1. This Court has jurisdiction to consider this Motion under 28 U.S.C. §§ 157 and
4 1334. This is a core proceeding under 28 U.S.C. § 157(b)(2). The Debtors consent to the entry of
5 a final order by the Court in connection with this Motion to the extent it is later determined that
6 the Court, absent consent of the parties, cannot enter final orders or judgments consistent with
7 Article III of the United States Constitution. Venue of the Bankruptcy Cases and this Motion in
8 this district is proper under 28 U.S.C. §§ 1408 and 1409.

9 **B. The Debtors and the Chapter 11 Filing**

10 2. On April 30, 2019 (the “Petition Date”), the Debtors filed voluntary petitions for
11 relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the
12 Central District of California, Los Angeles Division (the “Court”). The Debtors continue to
13 operate and manage their affairs as debtors and debtors in possession pursuant to sections 1107(a)
14 and 1108 of the Bankruptcy Code. No party has requested the appointment of a trustee or
15 examiner, and no committee has been appointed in any of the Bankruptcy Cases.

16 3. The Debtors are a logistics and delivery company headquartered at 3463 Foothill
17 Boulevard, Glendale, California 91214.

18 4. Over the past two years, an increasing number of lawsuits have been filed against
19 one or more of the Debtors, including various labor disputes. Most recently, on or about April 22,
20 2019, Hillair Capital Management LLC (“Hillair”) filed a three-count complaint against the
21 Debtors, alleging breach of contract, breach of guaranty and replevin and delivery, which is
22 currently pending as case number 19GDCV00492 in the Superior Court of the State of California,
23 County of Los Angeles, North Central District (the “Los Angeles Case”). On or about April 24,
24 2019, Hillair filed an *Ex Parte* Application to Appoint Receiver, Issue Temporary Restraining
25 Order and Set Order to Show Cause Why Receiver Should Not Be Confirmed and Why
26 Preliminary Injunction Should Not Be Issued (the “Ex Parte Application”) in the Los Angeles
27 Case. The hearing on the Ex Parte Application was set for May 1, 2019 at 1:30 p.m. In addition,
28 within the past 90-120 days, a number of purported creditors have filed UCC-1 financing

1 statements asserting purported liens against substantially all, if not all, of the Debtors' personal
2 property, including but not limited to accounts receivable.

3 5. Based on the aforementioned events and circumstances, amongst others, the
4 Debtors began to explore and evaluate potential reorganization strategies aimed towards
5 preserving and strengthening the Debtors' operations. After significant deliberation by the
6 Debtors in this regard, the Debtors determined, in conjunction with insolvency counsel, that
7 pursing reorganization under chapter 11 of the Bankruptcy Code provided the best option for the
8 Debtors, their customers, and their creditors.

9 6. By and through the Bankruptcy Cases, the Debtors intend to restructure their
10 obligations and reorganize their operations in order to maximize revenues and, thus, their ability
11 to pay creditors of the bankruptcy estates through a plan of reorganization.

12 **C. Employees and Payroll Structure**

13 7. At present, the Debtors utilize the services of approximately 700 employees. The
14 Debtors pay the Employees on a semimonthly basis through their payroll service, ADP ("ADP").
15 At least two (2) business before payroll is made, ADP draws the funds needed to satisfy the
16 upcoming payroll obligations from the Debtors' bank accounts. The Employees were last paid on
17 or about April 19, 2019 for the period of April 1, 2019 through and including April 15, 2019, and
18 the Debtors' payroll obligations average approximately \$450,000 to \$500,000 per week. The
19 Debtors estimate that the Prepetition Obligations total approximately \$850,000; however, the
20 portion of the Prepetition Obligations attributable to each Employee is less than \$12,850 per
21 Debtor.² The payment of the Prepetition Obligations will not render the estate administratively
22 insolvent. Certain of the Employees to be paid pursuant to this Motion are insiders.

23 8. In addition to wages and salaries, the Debtors also provide benefits to certain of
24 the Employees, including but not limited to health insurance contributions, expense

26 2 The Debtors do not believe there are amounts owed to any individuals on account of pre-petition wage and salary
27 obligations that exceed \$12,850, the priority expense compensation and benefit cap set forth by sections 507(a)(4)
28 and 507(a)(5) of the Bankruptcy Code. To the extent the actual amount owing such employees on account of a
Prepetition Obligation exceeds \$12,850.00, the Debtors shall only pay them \$12,850.00 at this time. The Debtors'
general counsel, Scott A. Sheikh, and their CEO, George Voskanian, are entitled to deferred compensation in excess
of \$12,850.00 that will become due post-petition, in July 2019.

1 reimbursements, and productivity and referral bonuses (collectively, the “Employee Benefits”).

2 On average, the Debtors spend approximately \$850,000 per year on Employee Benefits.

3 9. The services provided by the Employees are essential to the operation of the
4 Debtors. If the Debtors fail to timely pay the Prepetition Obligations and the Employee Benefits
5 (collectively, the “Prepetition Employee Obligations”), the Employees may suffer extreme
6 personal hardship and, in some cases, may be unable to satisfy basic living expenses. Such a
7 result would have a highly negative impact on workforce morale and would likely result in
8 unmanageable turnover, especially given the current demand for qualified delivery drivers and
9 dispatchers, which would result in immediate and irreparable harm to the Debtors and their
10 estates.

11 **III. DISCUSSION**

12 **A. Payment of Prepetition Obligations Should Be Authorized Under Bankruptcy
13 Code Section 507(a)**

14 Section 507(a) of the Bankruptcy Code provides priority status to certain of the debtor’s
15 employment-related unsecured claims. Specifically, 11 U.S.C. §§ 507(a)(4) and (a)(5) provide in
16 pertinent part:

17 (a) The following expenses and claims have priority in the following order:

18 ...[¶]...

19 (4) Fourth, allowed unsecured claims, but only to the extent of \$12,850 for
20 each individual or corporation, as the case may be, earned within 180 days before
21 the date of the filing of the petition or the date of the cessation of the debtor’s
22 business, whichever occurs first, for—(A) wages, salaries, or commissions,
23 including vacation, severance, and sick leave pay earned by an individual;

24 (5) Fifth, allowed unsecured claims for contributions to an employee
25 benefit plan—(A) arising from services rendered within 180 days before the date
of the filing of the petition for the date of the cessation of the debtor’s business,
whichever occurs first, but only (B) for each such plan, to the extent of—(i) the
number of employees covered by each such plan multiplied by \$12,850; less (ii)
the aggregate amount paid to such employees under paragraph (4) of this
subsection, plus the aggregate amount paid by the estate on behalf of such
employees to any other employee benefit plan.

26 11 U.S.C. §§ 507(a)(4) and (a)(5).

27 Since all priority claims must be paid before any distribution to general unsecured
28 creditors, courts regularly permit payment of pre-petition accrued wages and benefits within the

1 gamut of 11 U.S.C. §§ 507(a)(4) and (a)(5) so the debtor-in-possession can maintain its
2 workforce. *See, e.g., In re Quality Interiors*, 127 B.R. 391, 396 (Bankr. N.D. Ohio 1991).

3 Courts have also consistently authorized the payment of prepetition priority wages and
4 other debt in the absence of a plan of reorganization where such payments create “the greatest
5 likelihood of payment of creditors in full or at least proportionately.” *See Matter of Columbia*
6 *Gas*, 171 B.R. 189, 191-92 (Bankr. D. Del. 1994); *In re Lehigh & New England Ry. Co.*, 657 F.
7 2d 570, 581 (3d Cir. 1981); *Ionosphere Club*, 98 B.R. 174, 178-179 (Bankr. S.D.N.Y. 1989); *In*
8 *re Structurlite Plastics Corp.*, 86 Bankr. 922, 932 (Bankr. S.D. Ohio 1988), *citing In re*
9 *Chateaugay Corp.*, 80 Bankr. 279, 287 (S.D.N.Y. 1987).

10 As stated by the Ninth Circuit in *In re Adams Apple, Inc.*:

11 [A]nother “fundamental tenet”—rehabilitation of debtors . . . may supersede the
12 policy of equal treatment. Cases have permitted unequal treatment of prepetition
13 debts when necessary for rehabilitation, in such contexts as (i) prepetition wages to
14 key employees; (ii) hospital malpractice premiums incurred prior to filing; (iii) debts
15 to providers of unique and irreplaceable supplies; and (iv) peripheral benefits under
16 labor contracts. . . . [I]t illustrates a Congressional willingness to subordinate the
17 interests of prepetition creditors to the goal of rehabilitation.

18 829 F.2d 1484, 1490 (9th Cir. 1987)(internal citations omitted).

19 Courts have also authorized Chapter 11 debtors to honor prepetition employee benefits.
20 *See Matter of Canton Casting, Inc.*, 103 B.R. 874, 875-876 (Bankr. N.D. Ohio 1989) (prepetition
21 vacation benefits); *In re Busy Beaver Bldg. Centers, Inc.*, 19 F.3d 833, 853 (3d Cir. 1994) (“the
22 bankruptcy court entered numerous interim orders . . . authorizing . . . the payment of pre-petition
23 wages and employee benefits . . .”); *In re Chateaugay Corp.*, 80 B.R. at 281 (“Judge Lifland, upon
24 application of LTV, issued an order authorizing and empowering LTV to continue payment of
25 pre-petition wages and salaries, employee reimbursement expenses, and benefits.”).

26 In the instant case, ample cause exists to authorize the payment of the Prepetition
27 Employee Obligations. The Debtors utilize delivery drivers, dispatchers and other staff to ensure
28 the efficient and cost-effective operation of its enterprise. At present, there is a significant
demand for delivery drivers, dispatchers, and staff such as the Employees. As such, if the
Debtors are unable to pay the Employees the Prepetition Employee Obligations to which they are
entitled, the Debtors believe that the Employees may obtain alternate employment. Additionally,

1 the Debtors are concerned that any disruption in the satisfaction of the Prepetition Employee
2 Obligations may create doubt as to the viability of the businesses and, thus, the Employee's future
3 employment prospects. The filing of a corporate bankruptcy in and of itself often creates
4 uncertainty amongst employees; however, a bankruptcy filing coupled with the perceived
5 inability to continue to pay wages and provide benefits is far more detrimental to the ability of
6 any entity to reorganize given the inevitable impact such inability would have on the ability to
7 retain a quality workforce.

8 As noted by the court in *In re Equalnet Communications Corp.*, "the need to pay [pre-
9 petition employee wage claims] in an ordinary course of business time frame is simple common
10 sense. Employees are more likely to stay in place and to refrain from actions which could be
11 detrimental to the case and/or the estate if it pays and benefits remain intact and uninterrupted."
12 258 B.R. 368, 370 (Bankr. S.D. Tex. 2000). Here, the loss of any Employee is likely to have a
13 direct and significant impact on the Debtors' ability to operate and, thus, their ability to
14 reorganize. Indeed, the Debtors' continued rehabilitation depends on its ability to provide
15 services to its enterprise clients in an efficient and economical manner.

16 **B. The Proposed Payments To Employees Are Appropriate Under Bankruptcy
17 Code Section 363(b)(1)**

18 Under Bankruptcy Code section 363, a bankruptcy court may authorize a chapter 11
19 debtor to expend funds outside the ordinary course of business. 11 U.S.C. § 363. In order to
20 obtain approval for the use of estate assets outside the ordinary course of business, the debtor
21 must establish a valid business justification for the expenditure. *See In re Ionosphere Clubs, Inc.*,
22 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989). The Employees consist of a team of delivery drivers,
23 dispatchers and staff. The services provided by the Employees are essential to the operations of
24 the Debtors and, thus, the Debtors' ability to reorganize through bankruptcy. The inability to
25 timely pay the Prepetition Employee Obligations is not only likely to place an undue burden on
26 the Employees, but also irreparably harm morale amongst the Employees that could cause them to
27 lose faith in the ability of the Debtors to maintain operations at a level necessary to reorganize.

28 ///

1 **C. Payment of the Prepetition Obligations is Authorized Under Bankruptcy**
2 **Code Sections 1107(a) And 1108**

3 The Debtors are operating their business(es) as debtors in possession under Bankruptcy
4 Code sections 1107(a) and 1108. As such, the Debtors are fiduciaries “holding the bankruptcy
5 estate and operating the business[es] for the benefit of [their] creditors and (if the value justifies)
6 equity owners.” *In re CoServ, L.L.C.*, 273 B.R. 487, 497 (Bankr. N.D. Tex. 2002). The Debtors’
7 fiduciary duties include, among others, the duty “to protect and preserve the estate, including an
8 operating business’s going-concern value.” *Id.* In order to fulfill this duty, debtors in possession
9 may be required, under certain circumstances, to satisfy prepetition claims prior to the
10 confirmation of a plan. *See Id.* Indeed, the *CoServ* court noted that the pre-plan satisfaction of
11 prepetition claim would be a valid exercise of a debtor’s fiduciary duty when the payment “is the
12 only means to effect a substantial enhancement of the estate.” *Id.* Accordingly, and for the
13 reasons stated in further detail above, the payment of the Prepetition Employee Obligations is
14 necessary to ensure the uninterrupted operations of the Debtors.

15 **D. Bankruptcy Code Section 105 And The Doctrine of Necessity Support**
16 **Payment of The Prepetition Employee Obligations**

17 The payment of the Prepetition Employee Obligations could and should also be authorized
18 pursuant to Bankruptcy Code section 105 and under the “doctrine of necessity.” Section 105
19 authorizes the Court “to issue any order . . . necessary or appropriate to carry out the provisions”
20 of the Bankruptcy Code. 11 U.S.C. § 105. Payment of the Prepetition Employee Obligations is
21 further supported by the doctrine of necessity, which permits a bankruptcy court to authorize
22 payment of certain prepetition claims prior to the completion of the reorganization process where
23 the payment of such claims is necessary to the reorganization. *See, e.g., In re Just for Feet, Inc.*,
24 242 B.R. 821, 826 (D. Del. 1999); *see also In re NVR L.P.*, 147 B.R. 126, 127 (Bankr. E.D. Va.
25 1992). For the reasons set forth herein, and in light of the critical need for the Debtors to preserve
26 the going concern value of their business(es) in order to effectuate a successful reorganization
27 through, among other things, preservation of the Debtors’ current workforce, payment of the
28 Prepetition Employment Obligations on the terms set forth herein is proper pursuant to

1 Bankruptcy Code section 105 and/or the “doctrine of necessity.”

2 **E. Authorizing the Debtors to Reissue Checks for Prepetition Obligations Is**
3 **Warranted**

4 The Debtors further request that the Court authorize the Debtors to reissue, to the extent
5 necessary, any checks related to employee compensation, including but not limited to Prepetition
6 Employee Obligations, that were issued prior to the Petition Date and, due to the commencement
7 of the Bankruptcy Case, were not honored and, thus, remain outstanding. As stated *supra*, the
8 Employees are reliable delivery drivers and staff who are essential to the successful operation and
9 reorganization of the Debtors. The ability of the Employees to receive payment on previously-
10 issued checks for services rendered to the Debtors is essential to maintain morale and Employee
11 loyalty during the Bankruptcy Cases. Thus, for the legal and factual reasons stated *supra* in
12 relation to the other Prepetition Employee Obligations, the Debtors request that the Court
13 authorize the Debtors, to the extent necessary, to void and reissue any checks remitted but not
14 honored or negotiated prior to the petition date and reissue checks - thereby ensuring Employees
15 are fully compensated for services they have rendered to one or more of the Debtors.

16 **F. Request For Immediate Relief**

17 As discussed *supra*, the Debtors require immediate relief in order to pay the Employees
18 the Prepetition Employee Obligations in the ordinary course and, in so doing, maintain a
19 workforce that is essential to the successful operation and reorganization of the Debtors. In
20 addition to the adjudication of the Motion on an emergency basis, the Debtors respectfully request
21 that the Court waive the notice requirements under Rule 6004(a) of the Federal Rules of
22 Bankruptcy Procedure (the “Bankruptcy Rules”) and the fourteen (14) day stay of an order
23 authorizing the use, sale, or lease of property, to the extent applicable, under Bankruptcy Rule
24 6004(h). Absent such relief, the Debtors will be unable to pay Employees in the ordinary course
25 without running afoul of their responsibilities as debtors in possession. Accordingly, immediate
26 relief and waiver of any stay on the order granting such relief is warranted.

27 **IV. COMPLIANCE WITH LOCAL BANKRUPTCY RULE 2081-1**

28 The Debtors respectfully submit that the Motion and the evidence filed in support thereof

1 satisfy the requirements of Local Bankruptcy Rule 2081-1(a)(6).

2 **V. NOTICE**

3 As reflected in the proof of service that was filed concurrently with the Notice of
4 Emergency Hearing on Debtors' First Day Motions (Docket No. 6), on or about April 30, 2019,
5 and in accordance with the directives of the Court, the Debtors served all known parties-in-
6 interest with notice of the emergency hearing on the First Day Motions. Prior to the hearing, the
7 Debtors will serve a copy of the Motion in the same manner as service of the notice of the
8 emergency hearing. In the event that the Court grants the relief requested by the Motion, the
9 Debtors shall provide notice of the entry of the order granting such relief upon each of the
10 foregoing parties and any other parties in interest as the Court directs. The Debtors submit that
11 such notice is sufficient and that no other or further notice need be given.

12 **VI. CONCLUSION**

13 As the services of the Employees are essential to the continued operation of the Debtors,
14 and the Debtors believe that payment of the Prepetition Employee Obligations is necessary to
15 retain the Employees, the Debtors respectfully request that the Court enter an order:

- 16 a) granting the Motion in its entirety;
- 17 b) authorizing the Debtors to pay the Prepetition Employee Obligations immediately
18 upon entry of an order granting this Motion;
- 19 c) authorizing the Debtors, to the extent necessary, to void and reissue any checks
20 remitted by any Employee but not honored or negotiated prior to the petition date; and
- 21 d) granting such further and additional relief as the Court deems just and proper.

22
23 Dated: April 30, 2019

Respectfully submitted,

24
25 **FOLEY & LARDNER LLP**

26 By: /s/ Ashley M. McDow
Ashley M. McDow

27 [Proposed] Attorneys for Scoobeez, Scoobeez Global,
28 Inc., and Scoobur, LLC, Debtors and Debtors-in-
Possession

DECLARATION OF SHAHAN OHANESSIAN

I, Shahan Ohanessian, hereby declare:

3 1. I am the Chief Executive Officer (“CEO”) for Scoobeez, Scoobeez Global, Inc.,
4 and Scoobur, LLC, the debtors and debtors in possession (the “Debtors”) in the above-captioned
5 bankruptcy cases (the “Bankruptcy Cases”). As such, I am generally responsible for managing
6 the operations of the Debtors and, thus, am familiar with the Debtors’ operations, assets, and
7 liabilities. Additionally, as the CEO, I have been involved in discussions and planning sessions
8 related to the potential reorganization options and, thus, am familiar with the objectives the
9 Debtors intend to achieve through the Bankruptcy Cases. I submit this declaration in support of
10 the *Emergency Motion for Order Authorizing (1) the Payment of Prepetition Wages, (2) the*
11 *Continuation of Employee Programs Postpetition, (3) the Withholding and Payment of Payroll*
12 *Related Taxes, and (4) the Payment of Prepetition Claims Relating to Employee Programs* (the
13 “Motion”). Unless otherwise stated, I have personal knowledge of the matters set forth herein,
14 and if called as a witness, could and would competently testify to the same. Unless otherwise
15 defined herein, all capitalized terms shall have the meaning ascribed to them in the Motion.

16 2. On or about April 30, 2019, the Debtors filed voluntary petitions for relief under
17 chapter 11 of the Bankruptcy Code. The Debtors continue to operate and manage their affairs.

18 3. The Debtors provide on-demand logistics and delivery services in California,
19 Nevada, Illinois, New York, and Texas. They offer door-to-door delivery service that facilitates
20 same day deliveries for enterprise clients. To facilitate the distribution of products and goods, the
21 Debtors rely on a large group of delivery drivers and dispatchers.

22 4. The Debtors are headquartered at 3463 Foothill Boulevard, Glendale, California
23 91214.

24 5. The Employees received their last payments on or about April 19, 2019 for the
25 period of April 1, 2019 through and including April 15, 2019.

26 6. The Debtors pay their Employees' wage and salary obligations on either a salaried
27 or hourly basis, and pay approximately \$450,000 to \$500,000 in the aggregate on a weekly basis.
28 The Debtors estimate that the current Prepetition Obligations are approximately \$850,000.00.

1 Certain of the Employees to be paid pursuant to this Motion are insiders.

2 7. Over the past two years, an increasing number of lawsuits have been filed against
3 one or more of the Debtors, including various labor disputes. Most recently, on or about April 22,
4 2019, Hillair Capital Management LLC (“Hillair”) filed a three-count complaint against the
5 Debtors, alleging breach of contract, breach of guaranty and replevin and delivery, which is
6 currently pending as case number 19GDCV00492 in the Superior Court of the State of California,
7 County of Los Angeles, North Central District (the “Los Angeles Case”). On or about April 24,
8 2019, Hillair filed an *Ex Parte* Application to Appoint Receiver, Issue Temporary Restraining
9 Order and Set Order to Show Cause Why Receiver Should Not Be Confirmed and Why
10 Preliminary Injunction Should Not Be Issued (the “Ex Parte Application”) in the Los Angeles
11 Case. The hearing on the Ex Parte Application was set for May 1, 2019 at 1:30 p.m. In addition,
12 within the past 90-120 days, a number of purported creditors have filed UCC-1 financing
13 statements asserting purported liens against substantially all, if not all, of the Debtors’ personal
14 property, including but not limited to accounts receivable.

15 8. Based on the aforementioned events and circumstances, amongst others, the
16 Debtors began to explore and evaluate potential reorganization strategies aimed towards
17 preserving and strengthening the Debtors’ operations. After significant deliberation by the
18 Debtors in this regard, the Debtors determined, in conjunction with insolvency counsel, that
19 pursuing reorganization under chapter 11 of the Bankruptcy Code provided the best option for the
20 Debtors, their customers, and their creditors.

21 9. By and through the Bankruptcy Cases, the Debtors intend to restructure their
22 obligations and reorganize their operations in order to maximize revenues and, thus, their ability
23 to pay creditors of the bankruptcy estate through a plan of reorganization.

24 I declare under penalty of perjury that the foregoing is true and correct. Executed this 30th
25 day of April, 2019, at Glendale, California.

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Shahan Ohanessian